John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 599
January Retail Sales, Liquidity, Late Detail from Jobs Revision

February 13, 2014

Retail Sales Plunge Reflected Consumer Liquidity Issues
More than Bad Weather

Pattern of Collapsing Economic Activity Seen in Revisions

Concurrent Seasonal Adjustments Already Skewing Jobs Revisions

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PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, February 14th, covering January industrial production.*

Best wishes to all — John Williams

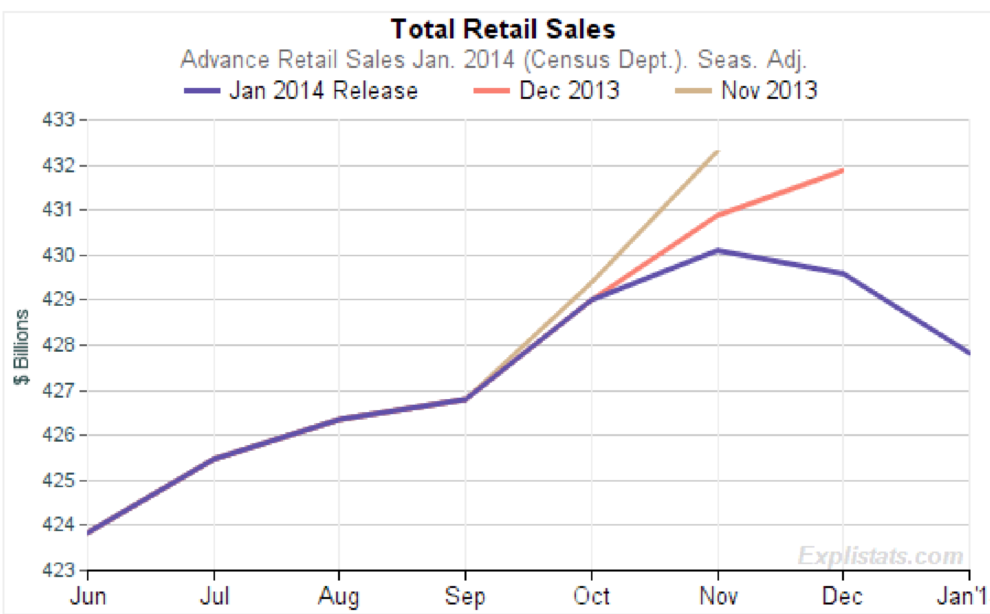
OPENING COMMENTS AND EXECUTIVE SUMMARY

Revisions Showed Pattern of Renewed Business Slowdown, Instead of Earlier Indications of Growth. As with the latest headline payroll and trade data, headline January retail sales were much weaker than market expectations, with prior-period revisions reversing earlier indications of increasing, nominal retail sales activity. This pattern of reporting catch-up increasingly should be seen in most other major economic series, along with a downside February 28th revision to fourth-quarter 2013 GDP headline growth and, ultimately, along with a likely headline contraction in first-quarter 2014 GDP, when that series first is estimated at the end of April.

Hyperinflation Outlook, Debt, Deficit and Fed Policy. The broad outlook for the U.S. dollar, the U.S. economy and a U.S. hyperinflation have not changed (see *Hyperinflation 2014—The End Game Begins*), but circumstances continue to evolve. Suggestions that the federal deficit no longer is a problem are nonsense, particularly in the context of generally accepted accounting principles (GAAP accounting). The Congress has allowed the President to waive the federal debt ceiling until March 15, 2015. Separately, Federal Reserve Chair Janet Yellen largely has confirmed that she shares former Fed Chairman Ben Bernanke's views on the economy and monetary policy. These issues all will be discussed in the general outlook to be reviewed in the pending *Second Installment* to the hyperinflation report. That installment will follow and incorporate the February 26th release of the long-delayed 2013 GAAP-based financial statements of the United State government (see the *Hyperinflation Watch*).

***Special Supplement to* Commentary No. 598.** The *Special Supplement* to *Commentary No. 598*, covering the modeling detail from the benchmark revision to the payroll employment series, follows the regular *Reporting Detail* section.

Collapsing Pattern of Retail Sales Activity. As shown in the accompanying graph (courtesy of ShadowStats-affiliate www.ExpliStats.com), what had appeared to be an uptrend in nominal retail sales in November reporting, has taken a dramatic downturn in subsequent revisions and current reporting, with the timing of the slowdown predating unseasonably-bad weather.



The earlier, bloated numbers, at least partially, likely reflected data gathering and reporting disruptions surrounding the government shutdown of October. The downturn and revisions more generally reflect some reporting catch-up, as well as consumer activity increasingly constrained by severe, structural liquidity problems. Without real growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales, as discussed later in these *Opening Comments*.

Earlier Retail Sales Activity Revised Lower, Again. Headline retail sales plunged by 0.41% in January, and that was in the context of continued sharp downside revisions to prior reporting. The nominal (not adjusted for inflation) level of sales in January 2014 was the weakest since September 2013, and in real terms (adjusted for inflation) likely was the weakest level since July 2013. The real retail sales series is on track for a quarter-to-quarter contraction in first-quarter 2014, and year-to-year growth clearly is signaling a recession or renewed downturn in the broad economy.

The headline nominal level of December 2013 sales revised downward by 0.53%, following a 0.30% downside revision to the last headline estimate of the November 2013 sales level. These changes continued the patterns of sharp downside revisions also seen in last month's reporting (before inflation adjustment). As the situation now stands, headline January 2014 retails sales dropped month-to-month by 0.41%, before inflation-adjustment (likely about the same in real terms). December nominal retail sales now are down a revised 0.12% (previously up by 0.23%), while November sales are up a revised 0.26% (previously a gain of 0.44%).

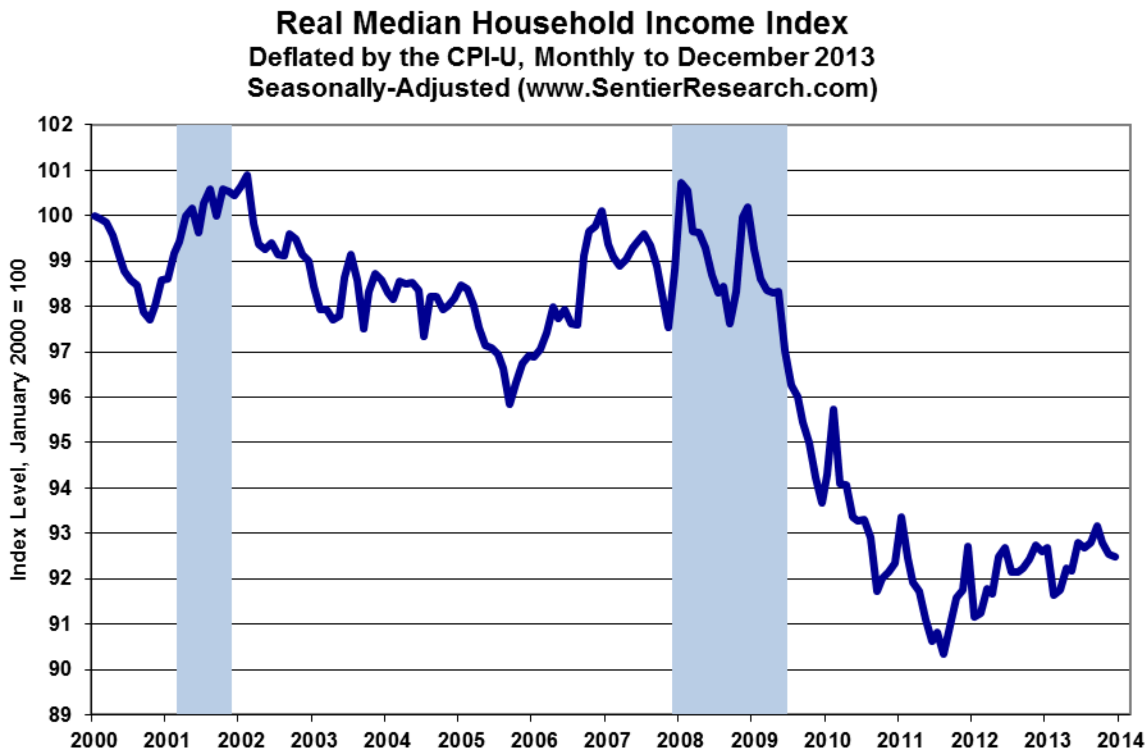
In real terms, rising inflation has taken its toll, with monthly sales in December down by 0.42% (previously down by 0.07%), and with November sales up by 0.22% (previously up by 0.44%). This was not good news for an industry dominated by the holiday-season activity of December and November.

Additionally, year-to-year growth in January 2014 sales plunged, both before and after inflation adjustment, with real growth holding deep in recession-signal territory.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—January 2014. Again, in the context of large downside revisions to prior reporting, and not adjusted for consumer inflation, headline January 2014 retail sale showed a statistically-insignificant, seasonally-adjusted monthly decline of 0.41%, which was a drop of 0.94% before prior-period revisions. The January decline followed a revised, statistically-insignificant month-to-month decline of 0.12% (previously a gain) in December. November's monthly gain revised lower to 0.26%.

Year-to-year, January 2014 retail sales rose by a statistically-significant 2.57%, versus a downwardly revised 3.63% gain in December, and a downwardly revised 4.03% gain in November.

Real (Inflation-Adjusted) Retail Sales—January 2014. The headline 0.41% nominal contraction in monthly January retail sales was before accounting for inflation. Real retail sales for January (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the January CPI-U, in the February 20th *Commentary No. 602*. Subject to seasonal-adjustment revisions in the CPI-U, the January headline inflation should be close to nil, leaving headline January real retail sales at close to its nominal 0.4% month-to-month contraction.


Real Median Household Income Index
Deflated by the CPI-U, Monthly to December 2013
Seasonally-Adjusted (www.SentierResearch.com)
Index Level, January 2000 = 100
102
101
100
99
98
97
96
95
94
93
92
91
90
89
2000
2001
2002
2003
2004
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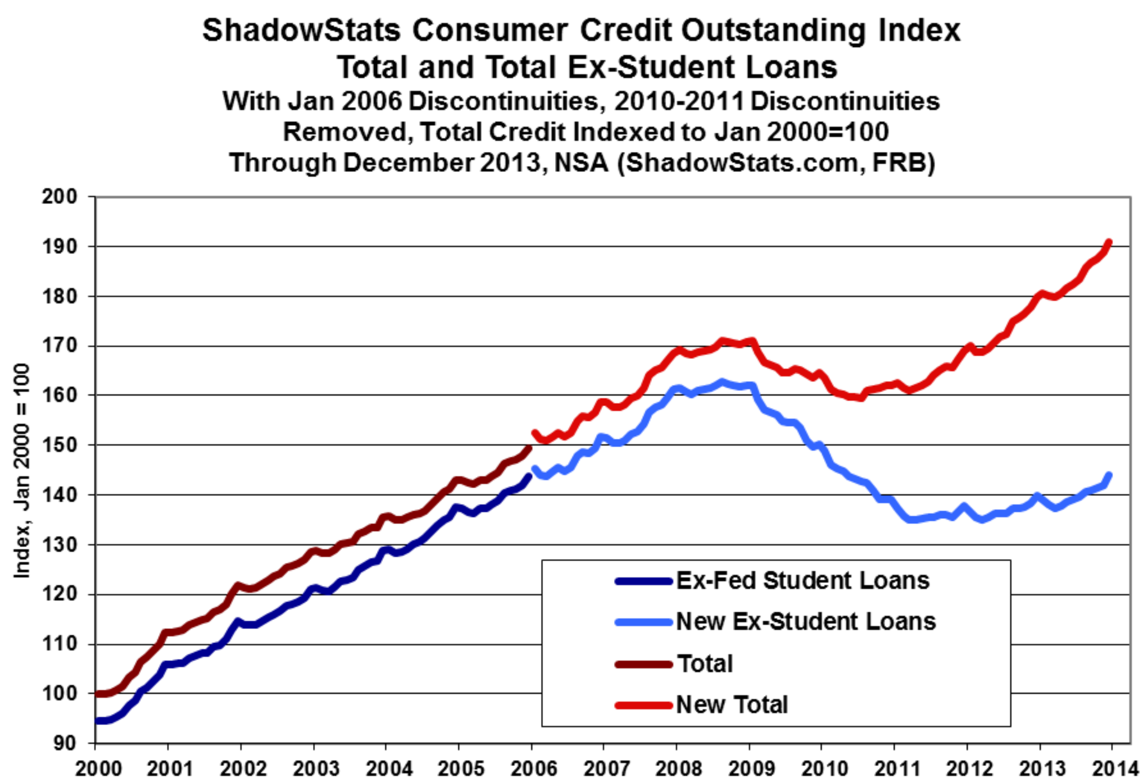
2010
2011
2012
2013
2014


ShadowStats Consumer Credit Outstanding Index
Total and Total Ex-Student Loans
With Jan 2006 Discontinuities, 2010-2011 Discontinuities
Removed, Total Credit Indexed to Jan 2000=100
Through December 2013, NSA (ShadowStats.com, FRB)
Index, Jan 2000 = 100
200
190
180
170
160
150
140
130
120
110
100
90
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Ex-Fed Student Loans
New Ex-Student Loans
Total
New Total

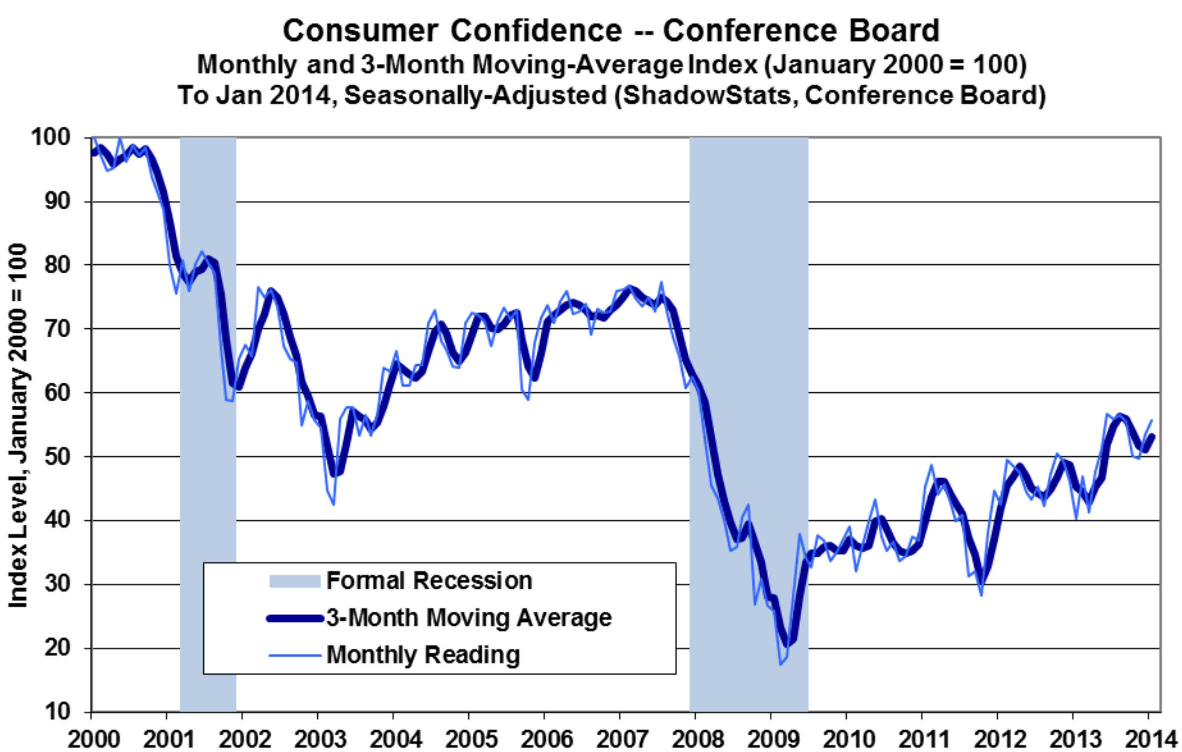
Structural Consumer Liquidity Problems Continue to Impair Consumption. Serious, structural liquidity problems continue to constrain consumer activity, meaningfully, as discussed frequently in these *Commentaries* and as indicated in the preceding graphs and those that follow (consumer credit outstanding and consumer sentiment are updated from previous postings).

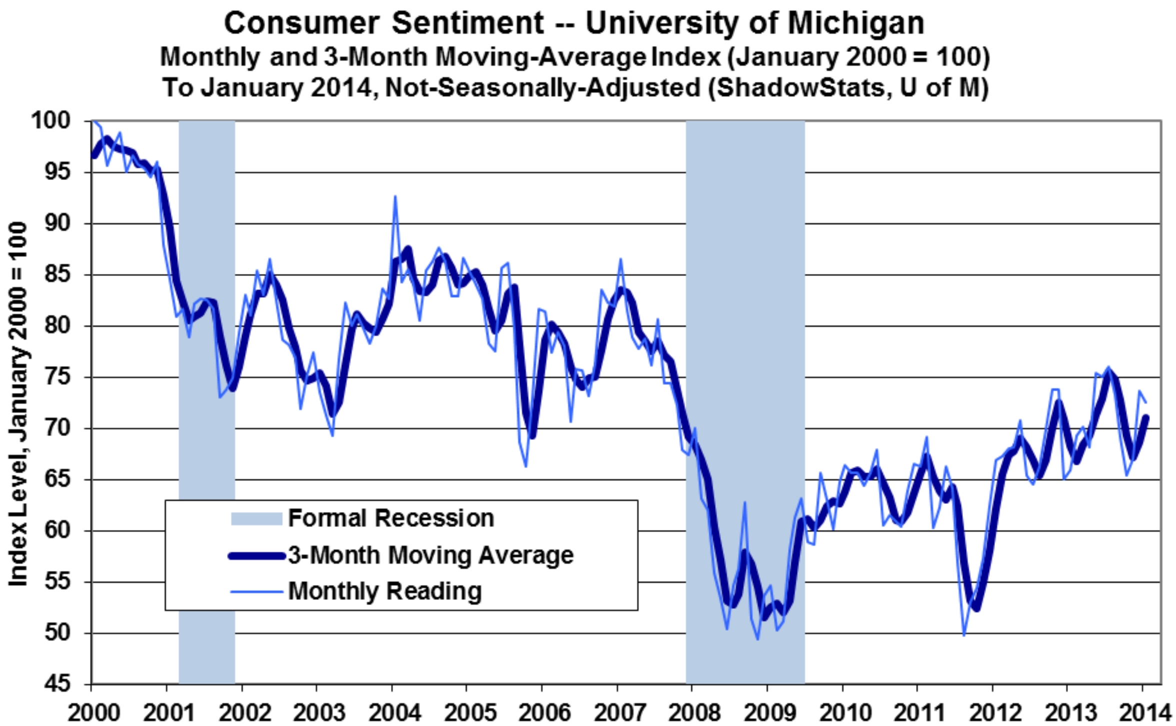
Shown in the first graph preceding, real median household income by month, as published by www.SentierResearch.com, showed continued income stagnation in December 2013, near the cycle-low for the series (see first graph).

As the GDP purportedly was starting a solid recovery in mid-2009, household income plunged to new lows. Deflated by headline CPI-U, the annual series published by the Census Bureau showed annual real median household income in 2012 to be at levels seen in the late-1960s and early-1970s (see *Commentary No. 558*).

The second graph above shows consumer credit outstanding (Federal Reserve Board), updated through December 2013. Practically all the post-2008-Panic growth in consumer credit has been in federally-backed student loans, instead of in bank lending to the consumer that would tend to fuel consumption of washing machines, etc., potentially helping to offset lack of income growth.

The last two graphs reflect the volatile consumer confidence (Conference Board) and consumer sentiment (University of Michigan) series for full-January 2014 reporting. Current levels in both series remain deep in traditional recession territory. The pattern here, as with household income, has been one of collapse and stagnation, as opposed to economic collapse and recovery indicated in the faulty GDP series.





Without growth in real income; without the ability or the will to expand debt meaningfully; and without the confidence to take on new debt, where possible; the consumer simply cannot sustain real growth in retail sales, housing or in the dominant personal-consumption measure of the GDP. There is no broad recovery that is pending or underway.

In like manner, the consumer lacked the ability to drive the purported post-June 2009 full-fledged economic recovery and renewed expansion shown in GDP reporting. That recovery was a statistical illusion; it never happened. Even so, as discussed in *Commentary No. 596,* the GDP increasingly is at risk for an outright headline quarterly contraction in first-quarter 2014 (January to March 2014).

[For greater detail on January 2014 retail sales, see the* Reporting Detail *section.]

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HYPERINFLATION WATCH

Hyperinflation Outlook. With the *First Installment* of *Hyperinflation 2014—The End Game Begins* published on January 7th, a new *Hyperinflation Summary* for this section will be added in conjunction with the publication of the *Second Installment*. The second and final installment will cover historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance. It should be published almost immediately following the much-delayed release the 2013 GAAP-based financial statements of the United States, which currently are due for release on February 26th. The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of *Hyperinflation 2012*.

REPORTING DETAIL

RETAIL SALES (January 2014)

Earlier Retail Sales Activity Revised Lower, Again. Headline retail sales plunged by 0.41% in January, and that was in the context of continued sharp downside revisions to prior reporting, shown in a rather striking graph in the *Opening Comments*. The nominal (not adjusted for inflation) level of sales in January 2014 was the weakest since September 2013, and in real terms (adjusted for inflation) likely was the weakest level since July 2013. The retail sales series is on track for a quarter-to-quarter contraction in first-quarter 2014, and the latest year-to-year growth clearly is signaling a recession or renewed downturn in the broad economy.

The headline nominal level of December 2013 sales revised downward by 0.53%, following a 0.30% downside revision to the last headline estimate of November 2013 retail sales. These changes continued the patterns of sharp downside revisions seen in last month's reporting (before inflation adjustment). As the situation now stands, headline January 2014 retails sales dropped month-to-month by 0.41%, before inflation-adjustment (likely about the same in real terms). December nominal retail sales now are down by a revised 0.12% (previously up by 0.23%), while November sales are up a revised 0.26% (previously a gain of 0.44%).

In real terms, rising inflation has taken its toll, with monthly sales in December down by 0.42% (previously down by 0.07%), with November sales up by 0.22% (previously up by 0.4%). This was not good news for an industry dominated by holiday-season sales. The real retail sales growth numbers are subject to the February 18th revisions to the seasonally-adjusted CPI-U.

Additionally, year-to-year growth in January 2014 sales plunged, both before and after inflation adjustment, with real growth remaining deep in recession-signal territory.

That said, where concurrent seasonal adjustments are recalculated every month, but not reported on a consistent, historical basis, the retail sales reporting suffers the same inconsistency issues that are seen with other economic series, such as payroll employment, the unemployment rate, and durable goods orders. The highly variable and unstable seasonal factors here have continued to cloud relative activity in the November 2013-to-January 2014, and in the December 2012-to-January 2013 periods, five months that are published on a non-comparable basis with all the other historical monthly numbers. Although the published historical numbers were consistent at the time of the May 31, 2013 benchmark revision (next revision is set for April 30, 2014), nine intervening rounds of post-revision, concurrent-seasonal adjustments now have thrown all the historical numbers into disorder. The resulting inconsistencies allow for unreported shifts in the historical data that most likely are distorting the estimates of the current headline numbers.

Underlying Fundamentals Remain Negative. The new data intensified the basic outlook of renewed downturn and of the traditional recession signals that have been in place. As has been the circumstance during the five-plus years of economic collapse, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer, as discussed in the *Opening Comments* section. Without real growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales.

Note: The stability of the seasonal-adjustment process (particularly the concurrent seasonal-adjustment process used with retail sales) and sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting. Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed in the Opening Comments, Hyperinflation 2012 *and* Special Commentary (No. 485).

Nominal (Not-Adjusted-for-Inflation) Retail Sales—January 2014. Again, in the context of large downside revisions to prior reporting, and not adjusted for consumer inflation, today's (February 13th) report on January 2014 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly decline of 0.4%. That was a drop of 0.41% at the second decimal point, and a contraction of 0.94% before prior-period revisions, +/- 0.58% (all confidence intervals are at the 95% level). The January decline followed a revised, statistically-insignificant month-to-month decline of 0.12% (previously a gain of 0.23%) +/-0.35% in December. November's prior monthly gain of 0.44% revised to a 0.26% increase.

Year-to-year, January 2014 retail sales rose by a statistically-significant 2.57% (+/- 1.05%), versus a revised 3.63% (previously 4.10%) in December, and a revised 4.03% (previously 4.22%, initially 4.69%) annual gain in November. Prior-period revisions, one year ago, reflected little more than the unstable monthly revisions in the concurrent-seasonal-adjustment process, where revised estimates are reported and shown only selectively. Indeed, the pattern of growth here remains distorted by the resulting lack of fully-consistent, seasonally-adjusted numbers being published by the Census Bureau.

January Core Retail Sales Declined Even More Sharply. Seasonally-adjusted monthly grocery-store sales rose by 0.37% in January, with gasoline-station sales gaining 0.79% for the month. Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. "Core" retail sales—consistent with the Federal Reserve's preference for ignoring food and energy prices when "core" inflation is lower than full inflation—are estimated using two approaches:

Version I: January 2014 versus December 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—fell by 0.73%, versus the official decline of 0.41%.

Version II: January 2014 versus December 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—fell by 0.57%, versus the official decline of 0.41%.

Real (Inflation-Adjusted) Retail Sales—January 2014. The headline 0.41% nominal contraction in monthly January retail sales was before accounting for inflation. Real retail sales for January (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the January CPI-U, in the February 20th *Commentary No. 602*. Subject to seasonal-adjustment revisions in the CPI-U, the January headline inflation should be close to nil, leaving headline January real retail sales at close to its nominal month-to-month contraction.

SPECIAL SUPPLEMENT TO *COMMENTARY NO. 598*

Modeling Detail—Payroll Employment Benchmark Revision. The 2013 payroll employment benchmark revision was detailed in *Commentary No. 598*, but at the time of the release of the revisions, on February 7th, specifics on the concurrent seasonal adjustment modeling for nonfarm payrolls was not available from the Bureau of Labor Statistics (BLS). The following covers the missing detail, both as to the trend model and as to the early distortions in the current year from the concurrent seasonal factor process.

Trend Model. As described generally in *Payroll Trends* and as expanded upon in detail available from our affiliate www.ExpliStats.com, the BLS's concurrent-seasonal-adjustment model indicates a trend for

February 2014 monthly payroll change of a 183,000 jobs gain, based on January's reporting and on the benchmark-updated BLS model.

The trend indication often misses actual reporting. For example, the indication for January 2014 was for a 145,000 monthly gain, where market consensus purportedly was around 180,000. Of course, the actual headline gain of 113,000 was lower than both the trend and the consensus. Nonetheless, the trend number becomes the basis for the consensus outlook, more often than not.

Concurrent Seasonal Factor Distortions. There are serious and deliberate reporting flaws with the government's seasonally-adjusted, monthly reporting of employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data for the latest seasonal patterns. As each series is calculated, the adjustment process also revises the history of each series, recalculating prior reporting, for every month, on a basis that is consistent with the new seasonal patterns of the headline numbers.

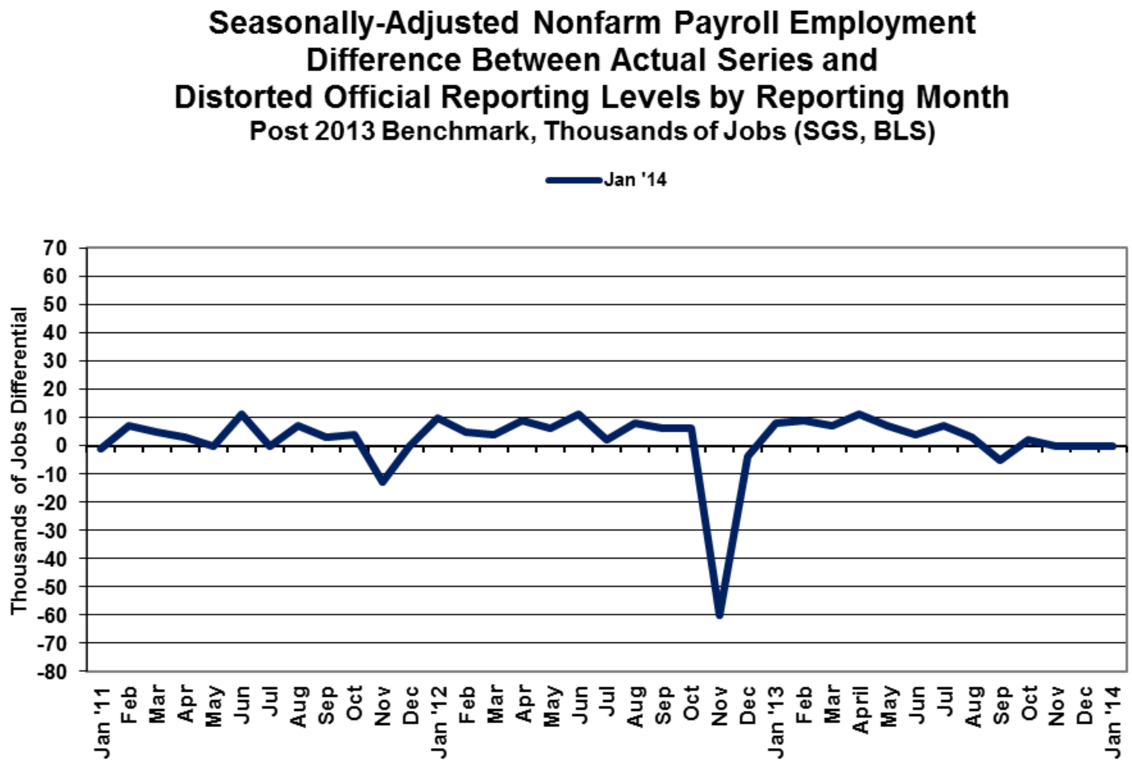
The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the consistent new data each month. As a result, headline reporting generally is neither consistent with nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually are of no substance, other than for market hyping or political propaganda.

The BLS explains that it avoids publishing consistent, prior-period revisions so as not to "confuse" its data users. No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth or reduced unemployment into current reporting, without any formal indication of the shift from the previously-published historical data.

January 2014 Inconsistencies. While the 113,000 nonfarm payroll jobs gain reported for January was consistent with the revised 75,000 jobs increase in December, on a concurrent-seasonally-adjusted basis, those increases were not consistent with the revised headline 274,000 jobs gain reported for November or with any earlier published data. The new data show that the consistent jobs gain for November versus October was 272,000. The 2,000 jobs gain differential is unusually small, and likely will widen in future monthly revisions. Some historical month-to-month variations have come close to 100,000, plus or minus.

Payroll Growth Is Consistent Only One-Month Back, With Heavy Distortions Usual. With the payroll series, the level of payrolls is released for the headline month, and for the two prior months, on a consistent basis. That means that only the current headline month-to-month change and the change for the prior month are consistent and comparable. Unlike the household-survey circumstance, however, the BLS makes available the seasonal-adjustment models and data so that others can calculate the payroll revisions. ShadowStats has done so for the accompanying graphs.

The first graph reflects the reset of all the prior year's data based on the March 2013 revision, with distortions already in place for the first month published (January 2014) being plotted. The second graph was reset with the March 2012 benchmark revision, with the January 2013 through December 2013 reporting differences plotted.


Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post 2013 Benchmark, Thousands of Jobs (SGS, BLS)
Jan '14
Thousands of Jobs Differential
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
-80
Jan '11
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan '12
Feb
Mar
Apr
May
Jun
Jul
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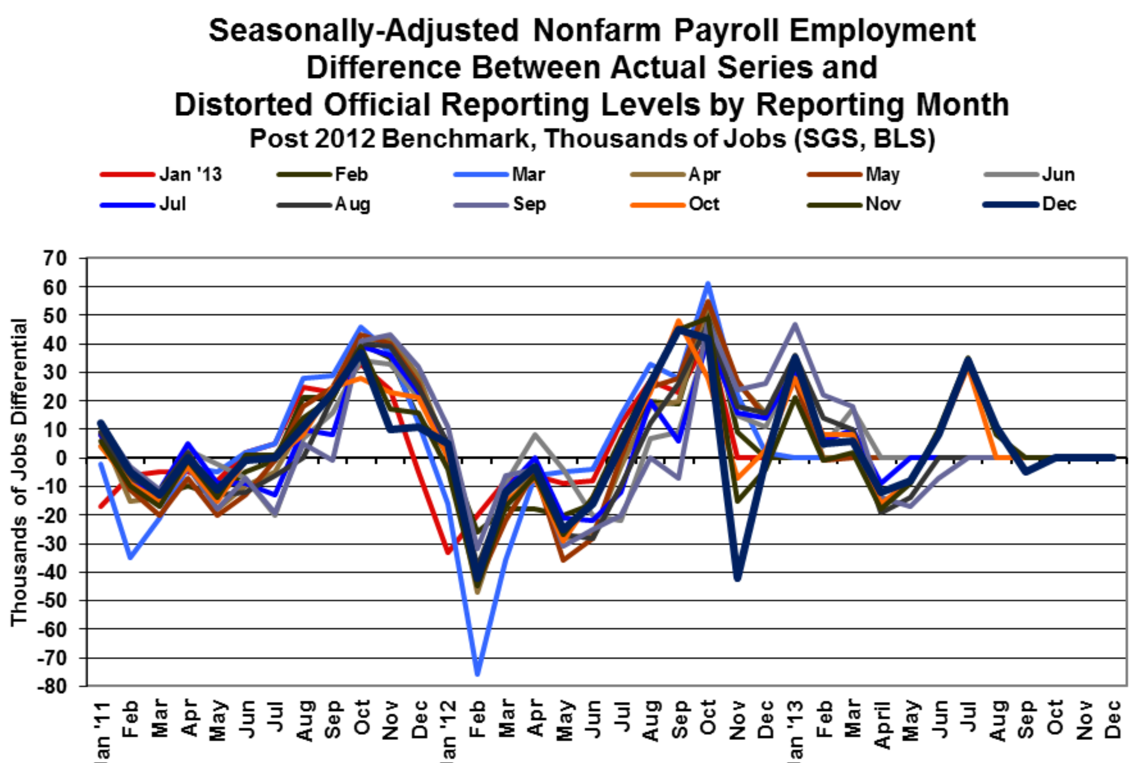
Feb
Mar
April
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan '14


Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post 2012 Benchmark, Thousands of Jobs (SGS, BLS)
Jan '13
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Thousands of Jobs Differential
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
-80
Jan '11
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan '12
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
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Jan '13
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Nov
Dec

The differences by month reflect current headline reporting versus whatever that data show for the actual, consistent, seasonally-adjusted numbers, each month. Without the BLS's deliberate reporting distortions, the plotted lines would be flat and at zero.

Distortions in the current post-benchmark environment are evident, even though the first data were based on the initial public reporting of the benchmark revision. The reason for this is that the BLS actually runs the benchmark revision, internally, based on October numbers. With subsequent internal runs in November, December and January, the new accounting will encompass and be skewed by three months of revisions. In the first graph, the line for January reflects only one month of new seasonal-factor revisions. The second graph reflects all of the 2013 numbers.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. At the moment, markets generally appear to still be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Expectations should soften anew, quickly, with the increasing likelihood of corrective reporting and revisions in the months ahead. The early stages of that process were seen in elements of recent reporting of the December and January payroll and retail sales data, and in the December trade balance detail.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see *Hyperinflation 2014—The End Game Begins*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last seven-to-eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Index of Industrial Production (January 2014). The January 2014 index of industrial production is scheduled for release tomorrow, Friday, February 14th, by the Federal Reserve Board. Net of the irregular volatility in utility output tied to seasonable or seasonable weather, moderate expectations for January production growth also are a fair bet to be disappointed, as companies increasingly move to reduce excessive inventory levels. There also remains the potential for unusual reporting volatility and revisions tied to catch-up in the data disruptions that resulted from the October shutdown of the federal government.

